

F@RMLETTER

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Global Food Security Requires Investment

Nearly a billion people in the world go hungry every day, most of them in developing countries. While global political leaders and development institutions are increasingly focused on ways to promote food security, only through increased investment in the world's farmers will we achieve the urgent goal of producing enough food to feed the world.

The challenge is immense. Weather, pests and crop disease, land degradation and market failures make farming an inherently risky enterprise. Too often, farmers can't access working capital to buy seeds and fertilizer and invest in productivity-enhancing equipment. Furthermore, one poor growing season impacts the prospects for the next growing season.

With investment, farmers can overcome these challenges and manage these risks. The UN estimates the world needs to increase investments in agriculture by over \$80 billion annually to keep up with the needs of a growing population. It's time for the international community to do more to eliminate the barriers to investment that both large and small farmers need to fulfill their productive potential.

IFC, a member of the World Bank, is one of the world's largest financiers to the agriculture sector in developing countries. For IFC, agriculture is a top priority, and we are rapidly increasing investments. In 2012, new commitments reached \$4.2 billion—more than double the prior year. Last year, IFC clients reached one million more farmers. This is just a tiny fraction of the hundreds of millions of farmers who need access to credit and other services. Yet IFC investments demonstrate that working together—with financial institutions, trading firms, processors, seed and other input-providers, governments, civil society and farmers themselves—we can exponentially multiply the number of farmers who get support.

In Africa and parts of South Asia, where poverty and hunger are most widespread, agriculture investment has been stagnant for the past three decades. It is difficult for farmers to accumulate savings or invest in their future operations. But they do. According to the Food and Agriculture Organization,

FARMERS NEED ACCESS TO PRODUCTION INPUTS AND KNOWLEDGE. QUALITY FARM INPUTS LIKE SEEDS, FERTILIZERS, AND IRRIGATION EQUIPMENT ARE ESSENTIAL TO INCREASE PRODUCTIVITY AND INCOMES; INNOVATIONS LIKE PRECISION FARMING MAKE SIGNIFICANT GAINS TO OPTIMIZE INPUT USE

farmers are the largest source of investment in agriculture. Farmers invest, despite enduring poor governance, weak rule of law, corruption, and weak property rights. Creating a supportive enabling environment for farmers and rural entrepreneurs could be transformative for food production.

Farmers need access to finance. In Africa, agriculture accounts for just two percent of commercial bank lending. Around the world, IFC is working with non-traditional lenders like commodity trading firms, and other financial intermediaries which make it possible to get credit to more farmers and enable them to purchase the inputs they need to plant. The



warehouse financing programs and supply chain financing highlighted in this issue are tangible ways the private sector can bring financing to more farmers.

Farmers need access to markets. Global commodity trading companies are an important link connecting many small farmers to local and global food processing companies.

Farmers need access to production inputs and knowledge. Quality farm inputs like seeds, fertilizers, and irrigation equipment are essential to increase productivity and incomes; innovations like precision farming make significant gains to optimize input use. IFC is working with partners to develop a Global Irrigation Program to help fund needed investments in irrigation equipment and technology. This will help farmers increase yields, reduce vulnerability to drought and use water more efficiently.

Farmers need access to infrastructure to move and store crops. Public and private investment can fund the roads, rails, ports, and storage facilities that allow farmers to sell more and food systems to waste less. For example, the Indian state government of Punjab successfully implemented a Public Private Partnership for a wheat storage facility supporting distribution to a half million

poor people each year. This project attracted \$7 million worth of private investment.

Access to finance, markets, inputs, and infrastructure are required to enable farmers to contribute to global food supply. With the right incentives, we can unleash a wave of investment in agriculture and help the world’s farmers—large and small—achieve their productive potential.





Financing Farmers in Value Chains

Adapted from the report “Innovative Agricultural SME Finance Models” prepared for the G-20 Global Partnership for Financial Inclusion’s (GPII) SME Finance Sub-Group

Rather than relying on the creditworthiness of individual farmers, value chain financing and other approaches that rely upon buyers are based on business relationships in the value chain. IFC has been working with a number of agribusiness players to leverage the financial resources of buyers, including many of the world’s major food and trading companies, to support farmers in their supply chains.

Buyer security models are structured in ways where the bank relies upon

the buyer contracts (verbal or written) to help secure its loans to actors in the supply chain. From the bank’s perspective, having a strong buyer in the chain in itself provides comfort, because it helps to reduce or manage the risks of limited market access and price volatility, especially if the farmer has an off-take agreement with a trusted counterparty, and is therefore less likely to default. Bankers may be further secured when the buyer helps to minimize default risk with a pledge of buyer receivables to the lender or some other form of guarantee. Under these models bankers base lending decisions on the strength of the value chain as much as the creditworthiness of individual farmers.

The downside of these types of arrangements is the dependence of

farmers on a single buyer: when the buyer disappears or defaults on her obligations, the whole supply chain collapses and farmers’ repayments fail with it. An additional constraint of value chain finance is that it largely does not

OUTGROWER MODELS, often based on a central processing unit or nucleus farm, CAN ALLOW FARMERS TO ACCESS INPUT FINANCE THANKS TO THE ADDITIONAL SECURITY provided by the buyer to the lender

address other financial services needs of the farmers, given its focus on credit only. These models do not facilitate development of the smallholder into an emerging farm business.

At least in traditional contract farming models, the farmer's role is limited to execution of the production plan of the off-taker/processor. The advantage for the farmer is that she hardly needs any working capital and that her income becomes predictable. The major benefit for the farmer and the bank is that cash flows become more predictable compared to stand-alone farmers. In addition, there is often a strong monitoring role for the buyer and there are often high set-up costs necessary given that the financing structure, related contractual arrangements, and procedures for monitoring and enforcement need to be tailored to each specific value chain situation.

Buyers are interested in involving banks in the farmer financing, because they do not want to use significant capital for the non-core business of lending to farmers. Bringing banks into tripartite arrangements allows buyers to leverage bank's balance sheets. Banks benefit from the buyer's knowledge of the chain and some level of buyer guarantee of farmer risk given its higher risk tolerance.

The innovative financing illustrated in this section are divided into distinct types of value chain finance (VCF).

The VCF models are divided into four categories varying according to the characteristics of different value chains:

- 1) tight VCF with output buyers;
- 2) loose VCF with output buyers;
- 3) nucleus outgrower models;
- 4) VCF with input suppliers.

These distinctions are made according to the tightness of the value chain, which impacts the magnitude of side-selling risk, and according to the actor in the chain with which the bank interacts to implement its financing model (output buyers vs. input suppliers).

The risk of side-selling is the biggest challenge for any actor that provides

inputs, input finance, or working capital to farmers in a value chain with the expectation to generate repayment via sale proceeds, whether it is the bank, the buyer, or an input supplier.

- Tight value chains, such as sugar and cotton, have integrated value chains where farmers face de facto only one buyer for certain types of crops: highly specialized export crops; highly perishable crops; and crops with constriction points in the chain (usually transport costs or specialized processing). In these tight VCs, side-selling is very costly or even impossible. These characteristics are also applicable to most nucleus outgrower financing models, in which nucleus farms typically give outgrower farmers access to processing, transport, and markets for cash crops.

- Loose value chains are typical of crops that are more easily marketable and therefore attract third-party buyers to purchase crops directly from farmers in the value chain. While farmers may have contracts with value chain buyers, they can be tempted to side-sell to these third party buyers.

- VCF for input suppliers includes farmer financing by other value chain actors such as agro-dealers, who access financing from banks for their own working capital to finance their farmer customers.

Tight Value Chain financing (TVCF) with output buyers

Tight Value chains are characterized by multiple "constriction" points for farmers that ultimately prevent side-selling. These constriction points can be incentives (technical assistance for farmers, loans, club membership, prizes, cash advances during the hungry season, sustainable price premiums, etc.) as well as penalties and constraints (such as perishable crop or enforced legal sanctions).

Integrating finance of inputs into supply chain activities is more common for "tight" value chains for a variety of reasons. Often, the values at stake are higher, including higher input loan sizes for specialized seeds, fertilizers, or other inputs. These models are predicated





Successful commercial intermediaries with integrated supply chain management recognize that a profit-making opportunity exists in continuously working with smallholders to increase productivity and secure stable supplies.

upon strong commercial intermediaries with a focus on the physical trade and optimization of production, quality, logistics, storage, processing, and risk management functions in between.

Successful commercial intermediaries with integrated supply chain management recognize that a profit-making opportunity exists in continuously working with smallholders to increase productivity and secure stable supplies. Thus providing finance to supplying farmers plays an important role to increase production, yields and quality for the benefit of the buyers and farmers.

Finance mechanisms may be either through the buyer or from the bank to the farmer directly with the security of a tri-partite agreement between bank, buyer, and farmer. Input finance is a crucial added service that the buyer facilitates for the farmer and ultimately increases loyalty and more stable supplies.

There are several benefits of tight value chain financing models. Value chain actors tend to have better knowledge of the key risk and profitability factors in a particular sub-sector, and banks can benefit from this knowledge of the value chain. These models often bundle finance with other services, such as improved inputs, extension services, and training, which can lead to increased cash flow for farmers and better quality for buyers. Tying credit with existing touch points and commodity flows can reduce the transaction costs of lending. Since buyers and other agribusiness companies have a core interest in obtaining the crop, they have every incentive to monitor closely the farmers and ensure delivery of the produce which also will ensure the repayment of the loan. This provides an incentive to value chain buyers to control delivery and thus defaults.

Value chain financing could be provided either through the key buyer

or through a financial institution in close collaboration with the buyer. Close collaboration can involve various arrangements from introducing farmers to the financial institution, to distribution and collection of funds, to risk sharing arrangements between the parties.

Loose Value Chain Financing (LVCF) with output buyers

As described in the introduction, VCF for tight value chains is generally easier and more prevalent than VCF for loose value chains, which typically feature easily marketable, staple crops. There are few success stories of value chain finance in staple crops such as maize, cassava, wheat, and ground nuts. For these crops, the side selling risk is naturally higher, because there are many buyers and crops can be sold in local markets. Additionally, government interventions are more frequent and sometimes unpredictable, causing market distortions and price volatility.



Even in the case of rice, a value chain structure would only work if there is a strong relationship between the farmers and the mill. However, in many countries there are multiple smaller mills and middlemen absorbing paddy production and undermining any potential value chain finance structure. Thus VCF for these loose value chains has been notoriously difficult, if non-existent.

Outgrower schemes

Outgrower models, often based on a central processing unit or nucleus farm, can allow farmers to access input finance thanks to the additional security provided by the buyer to the lender. Such schemes bring together four elements: a central farm and facilities surrounded by growers who produce on their own land under contract; the provision of inputs and technical assistance to growers by the nucleus farmer; guarantees to purchase the growers' crop subject to meeting predefined standards; and growers typically receiving a pre-agreed percentage of the final sales price of their product.

Although this still leaves growers exposed to price and weather risk, it allows them to allocate a portion of their farmland to growing a cash or export

crop they otherwise would not grow due to limited market access. The nucleus farm is generally engaged in primary production on a large farm plot, but also has other operations such as storage, processing, transportation, and market distribution for its own produce.

However, engaging nearby farmers allows the nucleus farm to increase volume and achieve higher economies of scale than would otherwise be possible through their own production.

There are several key success factors for effective nucleus farm models according to a Technoserve review: (i) direct access to a viable market (local, regional, global) for the end product; (ii) clear, transparent pricing mechanism, a price that is attractive to farmers, or both; (iii) avoiding monocropping systems (especially low-value, high-volume annuals); (iv) avoiding overreliance on credit to purchase inputs; (v) leveraging a competitive advantage in production, product attributes (e.g. brand, certifications) and/or proximity to the end market; (vi) credibility of the buyer and trust among farmers via regular direct interaction between the buyer and the farmers.

Though similar to VCF for output buyers, outgrower schemes are distinguished by

the centralized estate that both sources from local farmers and acts as a primary producer. Estates may have processing capabilities, but often sell aggregate production to end line processors.

Strong, local linkages offer additional security to lenders. Proximity with outgrowers promotes supervision, limiting the side selling that is often a function of distance. Local sourcing also simplifies the provision of extension services and other supportive functions, providing additional opportunities to build trust and establish working relationships.

Value Chain Finance with input suppliers/agro-dealers

Most commercial banks have limited branch networks outside major urban centers and no branches in rural areas. Banks interested in financing smallholders may choose to pursue lending directly to local agricultural input dealers, but leave the provision of credit to individual farmers completely in the hands of the agro-dealers themselves.

Lending through the agro-dealer leverages the benefits of trusted parties; lending decisions are made through local knowledge of farmer capacity and commitment as overall transaction costs are reduced.

Value chain finance with input dealers is a special type of model, because the lender generally assumes agro-dealer risk, which requires a very different type of creditworthiness assessment and security package, often involving cash collateral.

Over time, the bank may be able to begin to lend to individual farmers, while still using the agro-dealer to support borrower screening to address "Know Your Customer" concerns and handle administration of loans to reduce distribution costs. This may also enable the bank to begin to provide non-credit services to farmers by using agro-dealers as agents in the village.

Once a bank advances to this type of direct lending to farmers via input suppliers, it is important to note that these agro-dealer arrangements do not inherently involve buyer agreements; thus do not address a banker's concern with strong, stable procurement arrangements.



Warehouse Financing

Creating inventory finance for farmers

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collateral for financing. In certain markets, these stored products can be exchanged for warehouse receipts (WRs)—paper or electronic documents certifying that stocks have been deposited in the warehouse. WRs can then be used both for financing, by using the receipt to document the collateral provided as security to the bank, and as a trade instrument, by allowing transfer of ownership of the underlying commodity while it remains in storage -- thus eliminating the need for physical delivery of the goods to a different location.

A warehouse in this case are storage facilities including silos, bunkers,

storage tanks or vaults as well as traditional warehouses; these warehouses can be private, field, public, cooperative, government, customs-bonded or otherwise managed by trusted warehouse operators (sometimes known as collateral managers) who are willing to take control of them and guarantee the product inventory.

Of course, warehouses should be in a good condition, be run professionally, and operate on a commercial basis. Depending on the commodity and type of operation, warehouse operators will often carry out ancillary functions such as grading, cleaning, drying, primary

What is Warehouse Financing?

One of the most effective tools to provide greater access for farmer financing is to use stored agricultural commodities as

processing, and bagging. Lower-value commodities, like grains, are normally commingled in a single fungible mass of given grade (meeting tolerances for moisture content, defects, and foreign matter) so as to economize on storage space. It also assists with standardization of quality and facilitates operations and trading.

Warehouse finance already plays a vital role in the financing of the international trade and processing of developing and transitional economy countries. Smaller borrowers (small and medium-size enterprises, farmers, and farmer organizations) in these countries usually have little access to such financing.

Given the need for scale to make operations more practical, warehouse financing tends to be concentrated around the ports or is carried out in support of large-scale processors, but is scarce in areas of agricultural production. There is however opportunity to increase the reach and impact of these services to broader domestic agricultural market participants by improving standards of service provision, expanding in up-country areas, and developing public warehouses (i.e., those operating within a specific legal and regulatory framework and publicly-accessible to a wide range of depositors).

The move towards public (regulated) warehouses allows smaller farmers to participate, because depositors are charged pro-rata according to the number of tons handled, rather than requiring large standard inventory lot sizes. Public warehouses can moreover add considerable value to agricultural products by virtue of their services, notably by preventing post-harvest losses, standardizing and certifying quality, guaranteeing performance of sales contracts, providing in-store transfer of ownership and facilitating competitive trading in WRs.

Benefits for Farmers

A number of players, referred to as **depositors**, may use warehouses to store a range of nonperishable agricultural and fishery commodities (e.g., maize, rice, wheat, barley, cotton, cashew, coffee, cocoa, oilseeds, frozen fish, and fruit juice concentrates), agricultural



inputs (e.g., fertilizers and herbicides), and even nonagricultural commodities (e.g., building materials, timber, minerals, and metals) or manufactured goods (e.g., mobile phones, school books, spare parts, and cars). The depositors of such commodities may be individual farmers, farmer groups or cooperatives, traders, food processors, individuals, or corporate entities. They could also be parastatal institutions such as national food reserves or food aid agencies, such as the World Food Programme. However, some parastatals more often act as buyers of commodities than as depositors.

When using WRs as collateral for a loan, banks will normally lend depositors a specified percentage of the current value of the commodity. This discount allows the bank to provision for the risk of a fall in the value of the stored good and the costs it will incur when selling the goods, in case of loan default.

When the depositor is a farmer or farmer organization, the loan obtained against the WR will typically be used for working capital purposes such as buying inputs for the next season, investing in other revenue-generating activities, or meeting household consumption requirements while awaiting optimal selling conditions.

Similarly, a depositor who is a trader is more likely to use the loan for purchasing additional commodities. Processors, however, usually have a longer-term stock-financing need. They may use WR finance to source raw materials in a short harvesting season so they can process them year round. For example, animal feed companies need a fixed stock of soybeans to produce feed year round and could use WR financing on an ongoing basis.

Commercial warehouse operators will generally wish to receive deposits of a minimum size—e.g., a truckload, or 100 “bags”—which tends to exclude smallholder farmers from participating in the system as individuals. Often, the only way smallholders can access the system is by consolidating their harvest into eligible lots with other farmers. Larger, commercial-scale, or emerging farmers may deal directly with the warehouses, but smallholder farmers will normally need to access them through cooperatives or other types of farmer organizations. These organizations can use WRs to access funding for partial payment to their members, and pay the balance when they have finally sold the commodity.

Banks are generally interested in working with farmer organizations that meet certain minimum criteria such as status as a legal entity, adequate financial standing, and good financial management and records. The commodity collateral sometimes provides banks with sufficient security to proceed when some of these criteria are not met at the levels otherwise required when traditional collateral is used.

Benefits for Banks

There are clear benefits for banks wishing to reach agricultural customers. The establishment of a secure and reliable system can help banks develop financial services to target small and medium-size agribusinesses and farmer organizations. These businesses and smallholder farmers often do not have significant fixed assets, as their primary assets are often commodity inventories. The security provided by the WRs helps banks begin to lend to this new client base with secure commodity collateral,

and use this foundation to expand the financial relationship by then offering other types of agricultural loans, as well as deposits, savings, money transfers, insurance, leasing, and personal loans. Banks that wish to lend against WRs will first need to consider the existing legal framework, which requires a concerted effort from many institutions. Key considerations of the country’s laws and legal practices include whether they: recognize a bank’s security interest in WRs; treat them as documents of title; treat transferable WRs as negotiable instruments; enable rapid enforcement of a bank’s rights in the event of default; and whether they provide for a formal regulatory framework, the use of electronic WRs (e-WRs) and collateral registries.

So, How Does it Work?

To illustrate how this system works for the farmer depositor in practice, here is a basic example:

After harvesting, a farmer transports his grain to a public (certified) warehouse. If the grain meets stipulated quality standards, the warehouse operator issues a WR to the farmer for each minimum standard amount.

If the current price for the grain is acceptable for the farmer, he can immediately sell the grain to buyers (millers or traders) by using the WR as a trade instrument, and the buyer can take delivery of the traded amount from the warehouse. This eliminates market intermediaries such as middlemen who purchase at lower farm gate cash prices.

If prices are not attractive, the farmer has the option to approach a bank for financing. The banks use the WR as collateral for a short-term loan; for example, the bank may lend up to 60–80 percent of the value of the grain for periods of three to six months. This allows the farmer to meet basic financial needs, such as domestic expenses or preparation for the next planting season, while waiting for prices to improve. This loan is a useful option during the main harvesting period when supply is typically high, thus depressing prices at a time when households have significant cash needs. Once the farmer is willing to sell at



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 :**

the prevailing price, he provides instructions to sell the grain by trading the WR. The buyer pays the bank directly to repay the outstanding loan as well as any storage and handling costs. The remaining balance is then credited to the farmer’s account.

Warehouse finance and receipting practices around the world

In the United States, public warehousing originally developed through private initiative and was subsequently nurtured and regulated in a way that enhanced trust and facilitated its upstream development.

On the other hand, India’s warehouse infrastructure originally developed within (and is still dominated by) the public sector. However, in recent years, there has been significant growth in private sector investment. Warehouse operators, including professionally managed groups engaged in public warehousing, often belong to new electronic futures and spot exchanges that use WRs as the delivery instrument for large quantities of wide-ranging agricultural commodities.

In Eastern Europe and the former Soviet Union, various schemes have aimed to introduce public warehousing accessible to farmers and small and medium-size enterprises. Systems are most fully developed in Bulgaria, Hungary, and Kazakhstan.

South Africa provides a much more recent example of successful public warehousing; here, transferable WRs are extensively used for financing, for trading grains and oilseeds, and as delivery instruments on the Johannesburg-based futures and options exchange.

Similar initiatives have been launched in at least 11 countries of Sub-Saharan Africa besides South Africa, with the leading commodities targeted being maize, cocoa, coffee, cotton, and paddy rice. In the case of maize, progress to date has been slow and difficult, largely due to unsupportive policy frameworks with a politically sensitive food crop. Progress has been faster with certain export crops in Tanzania (coffee and cashew) and Ethiopia (coffee, sesame, and pea beans).

Presently, the majority of small and medium-size enterprises and farmers in Sub-Saharan Africa and many other developing countries have no access to any form of warehouse financing. Further progress with public warehousing in Sub-Saharan Africa will depend on improved strategies and more effective coordination of efforts of governments, the private sector, and the donor community. Several African countries have also used village-based and microfinance-linked inventory credit schemes (see Case Study examples).



The Power of Financial Cooperatives

The new ILO publication, Resilience in a downturn: The power of financial cooperatives, was commissioned to author, Prof Johnstone Birchall and is one of the ILO's contributions to the International Year of Cooperatives (it is downloadable from the ILO website at:

http://www.ilo.org/empent/Publications/WCMS_207768/lang--en/index.htm

The report notes that financial cooperatives have fared better than the investor-owned banks in times of crisis. Savings and credit cooperatives, cooperative banks and credit unions have grown, kept credit flowing especially to small and medium sized enterprises, and remained stable across regions of the world while (indirectly) creating employment. It addresses historical, statistical, conceptual, and policy aspects of financial cooperative development and tells the story of how financial cooperatives weathered the storm and came out strong while many investor-owned banks struggled for survival during the global economic

crisis. The report points to the unique combination of member ownership, control and benefit as the basis of cooperative resilience and that it is this provides a series of advantages over its competitors. With financial cooperatives presenting an astonishingly large slice of the global banking market, it is important to better understand the model better.

The report therefore examines financial cooperatives from their origins in the 1850s to the global movement they represent today bringing together 870 million people as members. It reviews the performance of financial cooperatives, looking in particular at the aftermath of the 2007-2008 crisis and the continuing long austerity

period. It explains why they have proven to be more resilient pointing to the specificities of the cooperative model of enterprise, its advantages and challenges. It point out that many of the characteristics of the model that experts viewed as disadvantages have now been recognized as their advantages including risk aversion, the lack remuneration/stock-option incentives and lack of access to outside capital. It also underlines the key role of cooperative federation as an element for their success. Federation allows cooperatives both interest group and business group integration.

The report stresses the need for an enabling environment for cooperatives. Government’s political interference and inappropriate regulation (overregulation in developed countries and too little in developing countries) has hindered financial cooperative development. Similarly, using cooperatives as conduits for government policies and interventions will not lead to their success. The report concludes with a review of practical policy options and recommendations for the way governments and development agencies should approach financial cooperatives underlining that cooperatives should be seen as partners in the wider aims of business development, insurance against episodic poverty, and decent work.

This report builds on a 2009 report from the ILO, Resilience of the cooperative business model in time of crisis, which highlighted the ways cooperative enterprises have shown resilience to the crisis across sectors around the world. The author of the report, Johnston Birchall, a Professor at Stirling University, has been writing on member-owned businesses such as cooperatives and mutuals over the last 25 years. His widely acclaimed book on People Centered Businesses (1994) continues to be a key reference for those in search of enterprise models that are closer to people’s needs. His 2013 book on Finance in an Age of Austerity: The Power of Customer-owned Banks looks into the potential of cooperative banks to stabilize the banking sector and provide the basis for a more sustainable economy.

This report provides a timely contribution to the global discussion



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on different approaches to promoting sustainable development goals in the aftermath of the global economic crisis. It shows how the success of financial cooperatives during the global financial crisis makes them significant players in the banking system.

The resilience of financial cooperatives is important to rural development. They constitute the second biggest banking network globally with 45 per cent of their branches in rural areas, compared with an average of 26 per cent for all banks. This demonstrates their strong roots and commitment to serving the needs of rural people.

The European cooperative banks are particularly effective; they have nearly 70,000 branches, reaching into all parts of both the urban and rural economies. The successors to the Raiffeisen movement are particularly

good at serving rural communities For example, 32 per cent of the branches of the ‘banche di credito’ (credit banks) in Italy are in areas with fewer than 5000 inhabitants.

The relationship between financial cooperative and other types of development

Financial cooperatives can be a base for other kinds of development programmes. Often, they are the only formal organizations available, particularly in remote rural areas. Their members need support, particularly when they borrow money to develop their own businesses; credit carries risks as well as opportunities. Parallel programmes can be provided that cut down the risks to borrowers while not undermining the cooperatives. In particular, they can be a base for supply chain development. This helps primary producers (farmers, fishers,



foresters) to make a better return on their business. It is no accident that, as soon as he could, Raiffeisen set up supply cooperatives for farmers, as well as rural credit cooperatives. They can also be made into a base for small business development, but without swamping them with external funding, or substituting political decisions for commercial ones. Both the financial cooperatives and the SMEs have to survive in a competitive market. Cooperatives often provide micro-insurance in the form of death benefits; as the promoters of the Grameen system found out, if credit is to be used to its full potential, the knowledge that one's surviving family will not be burdened with the debt is essential. Other types of micro-insurance can be added in, but not provided directly by the cooperative; beyond simple death benefits, the linking of insurance and borrowing can create a moral hazard, but if the linkage is not to the loan but to a potential cause of default - ill health or crop failure or natural disaster - the combination of lending and insuring can keep people out of poverty.⁹⁶ External funding can be used to subsidize the insurance side, provided this is insulated from the loan product. We should not forget that savings are also a kind of insurance; they smooth out the peaks and troughs of consumer expenditure and to some

extent help businesses to survive an economic downturn. Financial cooperatives should always provide savings and credit. Finally, we should remember that financial cooperatives are not just about financial deepening. Like other types of cooperative, they are 'people-centred' businesses, owned by the people they serve. This makes them more challenging than other types of micro-finance institution to promote, but also much more sustainable.

Inclusion in development programs

It is important that financial cooperatives be incorporated in development programs. Projects that are designed to strengthen the cooperatives can use the same network to provide agricultural extension, small business development, micro-insurance, and value chain work with farmers. The aim is to integrate the provision of credit with a wider goal of increasing people's incomes. It is vital to resist the temptation of pouring donor funds into the cooperative, thus undermining people's discipline in paying back loans.

Conclusions

Financial cooperatives are significant players in the economy; they have a stabilizing impact on economies, but more importantly they are contributing to improve livelihoods for people

around the world. Like other types of cooperatives, they are 'people-centred' businesses, owned by the people they serve. This makes them more challenging than other types of institutions to promote, but also much more sustainable.

The report stresses the need for an enabling ENVIRONMENT FOR COOPERATIVES. Government's political interference and inappropriate regulation (overregulation in developed countries and too little in developing countries) has hindered financial cooperative development.



Agribusiness Financing in Panamá, a Fully-Under-Way Country

Pedro Adán Gordon Sarasqueta, Eng. & M.Sc., and Carmen L. Sousa, G. D.M.V.Z. M.Sc.

Agribusiness in Panama is fully under way. In order to support this sector, the country has mainly five (5) very significant projects that promote market expansion and the modernization of the productive unities of small, medium-sized and big rural producers, whether organized or not, who have productive potential through the fresh-food Chains of Value and Competitiveness, which establish a link between production,



processing and merchandising and the due attention to natural resources sustainability and to the potential impact on the rural population's life conditions.

1. The Interest Compensation Special Fund (FECI in its Spanish abbreviation)

was created by means of Law 4 passed on 17th May 1994, regulated by the 29th Executive Bill of 1996 and ministered by the Superintendence of Banks of Panama. The FECI Commission, formed by the Ministry of Economy and Finance, the General Director of Income and the Superintendent of Banks, is in charge of issuing the necessary measures to execute the 4th Law and its regulations.

The FECI refers to the overtax applied to all personal and commercial loans over five thousand dollars (US\$5,000.00), granted by banks and financial institutions, corresponding

to the annual 1% deduction from the same amount that is the basis for the calculation of interests.. Forty-six banks operating in Panama report to the FECI.

Fifty per cent (50%) of these amounts are transferred to the National Treasure and twenty-five per cent (25%) to the Agribusiness Development Bank. The remaining twenty-five per cent (25%) is kept in the FECI and used to offer discounts on the interest tax on local loans for the qualified agribusiness sector and for the non-traditional products exporting agribusiness sector.

2. The Agribusiness Competitiveness Programme Trust

was created by means of n^o 117 Cabinet Resolution of 11th September 2006.

Its aim is to offer financial and non-financial assistance to producers in

those areas that demand increasing competitiveness in market opening, whether these producers are individuals or legal entities who carry out activities aiming at boosting the productivity and/or competitiveness of the agribusiness field, according to the productive sector supporting policies.

Its financial source comes from the state general budget resources or from other amounts authorised to be transferred to its patrimony.

3. The National Policy for Agribusiness Transformation

was established by means of Law 25 of 4th June 2001, with the purpose of offering administrative, working, financial and service support to the agribusiness producer, throughout the process of adaptation to the new conditions of his/her changing environment and of the modernization of his/her activities. It aims at improving the fresh food industry,

agribusiness and exportation sectors activities in the context of productivity, competitiveness and whole development in the short, medium and long term, in order that the producer may achieve sustainable production, marketing and transformation that will contribute to the national economic growth and development, as well as he/she may successfully compete both in the local and overseas market.

Essentially, the processes of change in the production, marketing, financing, administration and training systems are promoted among those agribusiness producers and workers who adopt specific policies, actions and measures resulting in the modernization of their activities. They will obtain financing through soft loans and direct financial assistance. Both individuals and legal entities can benefit from these through their guilds or by themselves.

4. The Contingence Credits Special Fund (FECC in its Spanish abbreviation) was created by means of Law 24 of 4th June 2001 in order to grant agribusiness loans through Agribusiness Development Bank or the National Bank of Panama. These loans are designed to offer financial assistance to those agribusiness producers affected by adverse weather conditions, by sudden market price falls or by the need of supporting the concerned activities so as to face up to the private compensation for reconversion.

This fund will be fed by additional credits financed with duly authorised National Treasure bills and by budgetary items included in the State General Budget, by the FECI resources unused in each financial year and by the retrieval of the loans granted under this Law. The loans will be repaid within a period of up to seven years, with an annual interest of up to five per cent (5%) of the balance, as an effective tax including bank expenditure and two-years' grace in the repayment of capital.

5. Rural Productivity Project – PRORURAL: The Government of



the Republic of Panama and the International Bank of Reconstruction and Promotion (BIRF in its Spanish abbreviation) signed N° 7439 Loan Agreement on 11th May 2007 as the general framework of the process for the mitigation of Potential Impacts on the population's life conditions.

The MIDA – PRO RURAL (Rural Productivity) Project responds to the national government's strategy to improve the welfare of the rural population of the provinces of Herrera, Los Santos and Veraguas. It consists of

supporting the development of small producers' potential, through the transformation and innovation of low-productivity economic activities, which however have the potential to generate employment and bigger income. This is done by profiting from the available resources, bearing in mind the opportunities and adjustments that arise in the international markets because of the growing integration of the Panama agricultural sector into international trading by means of free trade treaties and other instruments.

MADAGASCAR: Commodity Collateral Financing

Excerpted from research conducted by Jonathan Coulter on behalf of IFC.

In village-level warehouse financing programs, commodities are mainly stored in the name of each smallholder depositor (identity-preserved storage) in village warehouses or secure domestic buildings. National grading standards are not applied and WRs are not transferable. Microfinance institutions often provide the finance, with banks playing a refinancing role rather than financing farmers directly. Community pressures have often guaranteed high repayment rates with these schemes.

In Madagascar, the initiative helped small farmers store paddy rice and provided the cornerstone for the development of nine mutual microfinance networks. Inventory credit represented around 40 percent of the total loan portfolio, and with a reported repayment level of about 99 percent, inventory loans offset lower recovery with riskier agricultural production loans. Initially it was intended that stocks would be held in village warehouses run by producer organizations, but there was considerable mismanagement and the approach failed. Where the microfinance network appears to have achieved success is by financing paddy rice held in domestic buildings specially fitted to hold the stocks of the owner and a few neighbors, often family members. It is estimated that as of 2008, all the Malagasy networks (including CECAM's) were storing approximately 55,000 tons of paddy rice in about 10,000 such stores. This storage volume represented only about 1.4 percent of Madagascar's

production, but was nonetheless very important to the livelihood of large numbers of semi-subsistence farmers. The case exemplifies how commodity-collateralized financing can help such farmers and open rural markets to other financial products.

In village-level WAREHOUSE financing programs, commodities are mainly stored in the name of each smallholder depositor in VILLAGE WAREHOUSES or secure domestic buildings



NMB Tanzania Warehouse Receipt Financing



Excerpted from research conducted by Rabo International Advisory Services B.V. on behalf of IFC.

Robert Pascal, Head of Agribusiness of the National Microfinance Bank in Tanzania, gives an example of financing cooperatives using warehouse receipts: “NMB started financing coffee and cashew under a warehouse receipt system in 2007. Usually, it is difficult to obtain audited financial records of the primary cooperative societies. Thus the bank places much of its reliance on the financing structure.”

The requirements established by the bank include the following:

- The borrower must be a primary cooperative society that produces a certain crop at a substantial volume.
- Registered and licensed warehouse operators must be used.
- Disbursements are made against

commodities delivered in controlled warehouses.

- Buyers pay directly to a designated bank account (or escrow account*).
- Assurance must be provided that the previous quantity of crop produced and sales proceeds are realized.
- Financing is capped at a prespecified loan-to-value ratio set for each crop according to price volatility and marketing arrangements (typically in the range of 50–90 percent).

*Payment into the primary cooperative societies’ bank accounts works well in Tanzania because the commodities concerned—cashew and coffee—are sold through a nationwide auction system that ensures the settlement of transactions. Elsewhere, the buyer would be expected to pay into a bank escrow account in the cooperatives’ name from where the bank distributes the money; this gives the bank control over the funds from the buyer to first repay outstanding loans and any remaining storage costs or handling fees owed before releasing the balance to the borrower.

**ROBERT PASCAL,
HEAD OF
AGRIBUSINESS
OF THE
NATIONAL
MICROFINANCE
BANK IN
TANZANIA, GIVES
AN EXAMPLE
OF FINANCING
COOPERATIVES
USING
WAREHOUSE
RECEIPTS:
“NMB STARTED
FINANCING
COFFEE AND
CASHEW UNDER
A WAREHOUSE
RECEIPT SYSTEM
IN 2007**

Investing in Youth

“THE SECRET OF CHANGE IS TO FOCUS:
ALL OF YOUR ENERGY, NOT ON FIGHTING:
THE OLD, BUT ON BUILDING THE NEW”
Socrates

*Courtney Paisley, Global Director
of YPARD, the Young Professionals’
Platform on Agricultural
Research for Development*

We invest in something to enable it to grow. Yet, in practice, investment is made in our established professionals, our experienced farmers, middle and senior managers and experienced researchers and professionals. While these are all important people to the agricultural sector, in an age where investment is becoming increasingly limited, it can be argued that greater value is made through investment in youth.

The practice of investing in youth in agriculture is still minimal, as there are few youth focused programs and thus, few clear examples of impact. However, the importance of engaging with youth is gaining recognition in agricultural institutions globally as it becomes increasingly evident that there are not enough young people interested in engaging with agricultural development to meet our food security needs.

The importance of investing in youth becomes evident in the face of global youth unemployment rates. The

International Labour Organization states that youth are three times more likely to be unemployed than adults and that in developing countries, youth are disproportionately among the working poor. This poses a risk to the stability of many countries with sizeable youth populations as well as adversely impacting the countries’ economic development. There is a possibility of attracting these youth into the agricultural sector, but this possibility cannot be realized without increased investment in both youth and the agricultural sector itself.

While there are several areas ripe for investment youth led capacity development must become the norm in the agricultural sector. Experienced professionals are often those who benefit from capacity development opportunities, as they know where and how to access them and institutions choose to invest in their established staff, providing perks and incentives. Retaining young professionals in institutions is surprisingly not a priority despite the importance of passing on experience and learning. Capacity development strategies must ensure that youth, within the target group are aware of and gain access to these trainings. It is the least experienced who benefit most from capacity development and thus, their presence should be assured.





The needs of youth, as a key target group, are rarely taken into account when developing capacity development programs. A study by YPARD provided young professionals the opportunity to voice those skills and competencies that they felt were important in early career development, but which were absent or insufficient in their education.

Those that came out strongly included communication skills, business and entrepreneurship skills (more information on the study can be found at www.ypard.net). Capacity development organizations must take the opinions and needs of youth into consideration when developing their programs of work. Many capacity development initiatives that do target young professionals often provide a strong emphasis on entrepreneurship in an effort to address high youth unemployment. However, these cannot be successful without increased access to funding for youth. Youth often do not have the assets required to leverage funds required for start-ups and the purchase of land for farming. These are largely policy issues and investment is required to change these policies to take a serious and comprehensive approach to creating a youth-supportive policy environment. This is just the beginning. Once we target these areas we can begin

to look at a value chain approach that can provide better remuneration for youth entering into the sector – a key way to begin to increase the attractiveness of youth in agriculture. A comprehensive strategy bringing together several areas are required to create a supportive environment for youth to thrive in the

agricultural sector. And critically, in developing this strategy it is imperative that youth are involved. An agriculture sector able to meet the world's needs without depleting its resources will only become a reality if young professionals are actively engaged in shaping the sector's future.





Investing in Women Farmers



Susan Carlson,
*WFO Women's Committee
Chairperson*

“Investing in women farmers isn't just the right thing to do, it's good business. It works.” – Hillary Clinton, former U.S. Secretary of State.

Farmers around the globe are facing a

huge challenge of feeding an additional 2 billion people over the next 35 years. This task needs to be accomplished despite the adverse effects of climate change, high cost energy, and competition for land from urban development.

This is a daunting task that will require a great deal of investment in agriculture in literally hundreds of areas from efficient water use to the highest technology developments in seed, fertilizer, crop protection products and equipment to government sponsored research and extension services. This investment needs to be centered on increasing food security in the areas where the population will increase the most: Africa and Asia.

Investing in women farmers in the developing world can lead to the next “Green Revolution” in agriculture. Women are the majority of the agricultural workforce in 37 countries, 50% in much of Asia and Africa, and 43% worldwide. Yet, they own less than 2% of the land and lack access to credit, seeds, fertilizer, technology, and education. The United Nations Food And Agricultural Organization study in 2012 says that if women had the same access to farm support systems as male farmers, they could produce 20%-30% more.

The conclusion is obvious: women are the least resourced farmers, but the good news is that they are eager to tackle the challenge of producing more



“Investing in women farmers isn’t just the right thing to do, its good business. It works.”

Hillary Clinton, former U.S. Secretary of State

food, improving their families lives, and raising the income levels of their communities.

One of the most effective ways to do this is through cooperatives that can

combine the supply of credit and farm inputs with teaching women the know how to raise better crops and animals. This will take time to develop, and it won’t happen easily. It is a necessity and it is practical. It’s an economic

driver. Investing in women farmers is in everyone’s interest. We could start just by taking the advice of an Afghan woman farmer who told a western journalist this advice: “Stop seeing women as victims; see them as leaders”.



THE AMERICAS' AGRICULTURE INVESTMENT EVENT NOVEMBER 4- 5 2013.

Agriculture Investment Summit Americas 2013 is the leading event for agriculture investors in order to understand the latest allocation opportunities in this asset class.

The event includes: an exhibition with free seminars, a 2 day conference, 1-2-1 partnering sessions, networking app, and fun activities like the 1920s themed drinks reception.

The event will focus on:

- How to structure an AG portfolio and get the best ROI
- How to identify investment opportunities in high-growth ag sectors like aquaculture
- How to evaluate sustainable investments and achieve returns
- How to understand and use data on commodity prices
- How to uncover the top technologies

<http://www.terrapinn.com/2013/agriculture-investment-summit-americas/index.stm>



INTRODUCING EAGLE, A NEW CASSAVA BEER BRAND IN GHANA

It is estimated that more than 70% of Ghanaian farms are 3 hectares or smaller in size and many of these grow cassava. However, there is currently an annual surplus of around 40%. Anyone with experience of cassava knows that it deteriorates rapidly once it has been uprooted from the ground.

The cassava beer itself, Eagle, provides an opportunity for low-income consumers. It will be sold at a 30% discount to mainstream lagers, offering an affordable, high-quality alternative to the informal or illicit alcohol that they might otherwise drink.

This launch of Eagle brand beer marks not just the creation of a new beer brand, but the opening up of new opportunities for business, consumers and Ghana's smallholder farmers 'investment in Agriculture.

As a matter of facts, much of this success has been due to strengthened public investment in agriculture and food

<http://www.guardian.co.uk/global-development-professionals-network/sab-miller-partner-zone/eagle-beer-ghana-launch?INTCMP=SRCH>



FAO PUBLICATION ON INVESTMENT IN AGRICULTURE "THE STATE ON FOOD AND AGRICULTURE."

Investing in agriculture is essential for reducing hunger and promoting sustainable agricultural production. Those parts of the world where agricultural capital per worker and public investments in agriculture have stagnated are the epicentres of poverty and hunger today.

As key messages of this publication you can find the points which follow below:

- Investing in agriculture is one of the most effective strategies for reducing poverty and hunger and promoting sustainability.

-Farmers are by far the largest source of investment in agriculture.

-Farmers must be central to any strategy for increasing investment in the sector, but they will not invest adequately unless the public sector fosters an appropriate climate for agricultural investment.

-A favourable investment climate is indispensable for investment in agriculture, but it is not sufficient to allow many smallholders to invest and to ensure that large-scale investment

meets socially desirable goals.

-Governments and donors have a special responsibility to help smallholders overcome barriers to savings and investment.

-Governments, international organizations, civil society and corporate investors must ensure that large-scale investments in agriculture are socially beneficial and environmentally sustainable.

-Governments and donors need to channel their limited public funds towards the provision of essential public goods with high economic and social returns.

<http://www.fao.org/publications/sofa/en/>



MALNUTRITION IN MALAWI: IS PERMACULTURE THE SOLUTION?

As the third highest per capita consumers of maize in the world, Malawi's dependence on a grain with high energy content but low protein, fat, and micronutrient quality has led to sustained issues of malnutrition. Despite recent praise of Malawi's efforts to end hunger from the head of the Food and Agriculture Organisation (FAO) José Graziano da Silva, this southern African country still has high rates of stunting in children under five, and high rates of anaemia and vitamin A deficiency are putting the population at high risk for impaired cognitive development.

Permaculture is one such approach that is being adopted by rural farmers in Malawi. It is a design method that mimics natural systems to decrease the need for outside inputs and increase biological diversity. While this seems to be an obvious solution, its proponents have faced challenges in its implementation.

All in all, it may take years for permaculture to spread through a community, it's worth the investment in agriculture.

<http://www.guardian.co.uk/global-development-professionals-network/2013/mar/13/malnutrition-malawi-permaculture?INTCMP=SRCH>
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